

the MWPAAC REPORT

Metropolitan Water Pollution Abatement Advisory Committee  MEMBER PACKET

March 2008

MEMBERS:

Alderwood Water and Wastewater District
City of Algona
City of Auburn
City of Bellevue
City of Black Diamond
City of Bothell
City of Brier
City of Carnation
Cedar River Water and Sewer District
Coal Creek Utility District
Cross Valley Water District
Highlands Sewer District
City of Issaquah
City of Kent
City of Kirkland
City of Lake Forest Park
Lakehaven Utility District
City of Mercer Island
Midway Sewer District
Northeast Sammamish Sewer District
Northshore Utility District
Olympic View Water & Sewer District
City of Pacific
City of Redmond
City of Renton
Ronald Wastewater District
Sammamish Plateau Water and Sewer District
City of Seattle
Skynway Water and Sewer District
Soos Creek Water & Sewer District
Southwest Suburban Sewer District
City of Tukwila
Val Vue Sewer District
Vashon Sewer District
Woodinville Water District

NOTICE OF MEETING

The MWPAAC Meeting is scheduled for Wednesday, March 5, 2008, in Building H, Room 103 at Renton Technical College located at 3005 NE 4th Street, Renton, Washington. Renton Technical College is located near I-405. Take Exit 4 and the campus is located between NE 3rd Street and NE 4th Street at Monroe Avenue NE. The meeting is from 10:30 a.m. – 1:00 p.m.

All MWPAAC members are encouraged to attend the meeting. Lunch will be served promptly at 11:30 a.m. Luncheon is Poached Salmon and the alternative dish is Winter Squash Risotto. There will be no cost for representatives, alternates or guests. Please RSVP to Valerie Garza at 206-263-6070 or valerie.garza@kingcounty.gov by 3/03/08.

AGENDA FOR MARCH 5, 2008

10:30 AM – 1:00 PM MWPAAC Meeting

1. Chair's Report Scott Thomasson
MWPAAC Chair
2. WTD Director's Report Christie True
WTD Division Director
- 3a. Communication Plan for 2009 Sewer Rate & Capacity Charge Annie Kolb-Nelson
WTD Staff
- b. Wastewater Facility Neighbor Survey Results
- c. Water Quality Survey Results
4. Capital Program Financing Strategies Tom Lienesch
WTD Staff
5. Review of Draft MWPAAC By-laws Scott Thomasson
MWPAAC Chair
6. Subcommittee Reports by Subcommittee Chairs

Table of Contents

Page	Item
1	Agenda
2-7	February's Meeting Minutes
7	Subcommittee Reports
8	March's Event Calendar

NEXT MEETING: APRIL 2, 2008

**Members, Alternatives
& Guests Present:**

Pat Brodin
Walt Canter
Dave Christensen
Joyce Clark
Gary Cline
Don Davidson
Roger Eberhart
Bob Elwell
Wes Jorgenson
Gary Hajek
Vicky Henderson
Don Henry
Ken Howe
Chris Kuehn
Erin Leonhart
Arne Lind
Ron Little
Sheldon Lynne
Pamela Martin
Steve Moye
Joyce Nichols
Bill Pelozo
Greg Reed
Ron Sheadel
Mary Shustov
Lorraine Snyder
Ron Speer
Scott Thomasson
Bill Tracy
Jens Vincent
Art Wadekamper
Margaret Wiggins

King County Staff:

Tim Aratani
Ken Guy
Bob Hirsch
Erica Jacobs
Beth Mountsier
Lorraine Patterson
Christie True

FEBRUARY'S MEETING MINUTES

Chair's Report – Dave Christensen

The meeting was called to order and introductions were made. It was moved and seconded and carried by the unanimous vote of all Committee members present that the minutes of December 5, 2007, meeting be approved and amended to reflect the correct positions that were up for election: Chair, Treasurer, Chair of the Rates & Finance Subcommittee, and Chair of the Contracts & Legal Subcommittee.

Election Results

Scott Thomasson was elected Chair

Wes Jorgenson was elected Chair of the Engineering and Planning Subcommittee

Trisha Erickson was reelected Chair of the Rates and Finance Subcommittee

Ron Speer was reelected Chair of the Contract and Legal Subcommittee

Erin Leonhart was re-elected Treasurer

WTD Director's Report – Christie True

The County refinanced \$237M in general obligation bonds from the late 90's; they were reissued as general obligation bonds backed by sewer revenues. An estimated \$13M in savings resulted from the refinancing, garnering \$1.97M per year through 2016. The additional savings are being rolled into the development of the sewer rate.

The Environmental Protection Agency (EPA) recently conducted an audit of WTD. In December, EPA notified WTD that they would conduct an audit of the entire wastewater system for compliance with sanitary sewer overflows (SSOs) and combined sewer overflows (CSOs). The EPA audit team accompanied by the Department of Ecology (DOE) visited the majority of WTD facilities and asked very detailed questions. Letters were sent out to the component agencies alerting them to the audit and the possibility that EPA would audit them and, in fact, they visited Northshore Utility District. EPA was briefed on inflow and infiltration (I/I) and the I/I program that has been underway for several years and how WTD is reducing I/I in the system. Christie feels that WTD staff conveyed a very positive view of WTD's approach of working collaboratively with component agencies. But the overall impression EPA left was that they didn't buy into this approach. EPA staff admitted that they are

enforcement people; they tend to like hammers over other kinds of incentives. DOE is concerned that SSOs are occurring in the local systems and are not being reported. WTD reports all SSOs, even if something doesn't make it to a receiving body. What DOE is finding is that they are not receiving reports on SSOs. This is a red flag for EPA as well. Any time an SSO occurs, even if the agency is not under permit, the agency is required to report it and state what corrective actions were taken. It will be quite some time before the audit findings are in. EPA is also doing an inspection of the City of Seattle some time later this spring. Christie thinks, overall, WTD did well. The comments received from EPA were that WTD staff definitely knew how system worked, and EPA staff were impressed with the overall operations of the utility. Two areas identified for follow-up were: the 9-minimum controls of CSOs and the timing of completing the 20-projects that are

Continued from Pg. 2 scheduled between now and 2030. Another issue of concern is I/I and what incentives customer agencies have to prevent excessive I/I incursion into the system.

A question was asked whether “excessive” flows was defined by the EPA. Christie replied, no, it was not but we cited DOE’s orange book as the standard.

Christie said, that is a good point about the [permitted flow] standard other utilities may have that’s less than ours in terms of how much peak flow that they can carry. Both of these programs have been approved by the DOE, and they looked at a number of factors. One thing to be aware of during this review: we asked EPA very pointedly, can we assume that the state’s program is in compliance, so if we are doing everything in compliance with them, and the state has given approval, then we can assume that we are in compliance with the Federal Clean Water Act? The answer was no. So they are also looking at whether the state is applying all of the rules and regulations appropriately to us, and that is part of this review. It is not a given that it’s going to be perceived as okay by EPA, either, even if it’s been approved by DOE.

A member inquired whether the sewage disposal agreement protected their agency from the hammer approach. Christie responded that the contract provides a lot of protection for the flows sent to the system; it does not provide protection for flows outside the system.

In response to whether the county would be the hammer, Christie answered that there are some places around the country where they have stringent requirements about flows entering their system. Within the contracts for those agencies that have flows after 1964, a surcharge can be levied on excessive flows but it’s a complicated method that might be perceived by EPA as an incentive for local agencies not to send excessive I/I to WTD. However, we have determined through the I/I process that that is very difficult to try and impose. There are rules and regulations that are in the county code regarding control of I/I but I don’t think the elements of enforcement have ever been imposed.

In response to a question, Christie said that funding is not contingent on those assessments.

A member wondered whether the hammer can be used against legislators to provide additional monetary support. Christie answered that a really good point has been raised where you can potentially turn lemons into lemonade. I think there’s some evidence around other places in the country where a situation has occurred, and they have gotten funding and sometimes these kinds of consent orders serve that purpose but it’s certainly not something that we are inviting in our conversations.

Investment Pool Update - Ken Guy

Ken provided a quick overview of the county’s investment pool and impaired investments. The pool is always over \$4 billion in assets. The county has investment agreements with all of the pool members. The county invests district's residual cash reserves on their behalf, and the only types of securities that can be invested in are those permitted by state law, the Washington State Investment Board, and county policies. It’s that combination that sets the parameters for county pool investments. The county is only allowed to invest in highly rated securities and fixed income securities. These include certificate of deposits, U.S. Treasury obligations, federal agency obligations, municipal obligations, repurchase agreements, and commercial paper. About of 40% of

Continued the pool is made up by county agencies and 60% are other districts. No city governments
from Pg. 3 participate in our pool as they are their own treasurers.

A question was asked if state law prohibits cities from participating in the county's investment pool. Ken said I'm not sure there's anything that precludes that. Under State law, county government is actually designated to have that treasury function. Cities have discretion as to where they place their money.

Since August, dramatic changes have occurred in the global credit market as a result of the buyers' strike on asset-backed commercial paper, this turmoil has become a sustained problem over time. Many of these commercial paper programs could not keep rolling over and selling their commercial paper. They had to go through wind-down action, which lead to some enforcement events and eventually to some defaults, and now they are going through some restructuring programs for some of these defaulted commercial papers. The county stopped buying all forms of paper, including asset-backed, in August. The county hired a firm called Public Financial Management, as outside experts to come in and take a look at our portfolio and give us some recommendations going forward mitigate our risks. Following that strategy the county was able to reduce the pool risk, from what was 25% of asset-backed commercial paper in August in the pool to the current 5% commercial paper which is impaired investments. The investment pool has 24 holdings that fully matured for \$831M and the portfolio has shifted so that the county is no longer investing in commercial paper.

In response to questions, Ken explained commercial paper is an IOU issued by a corporation or a financial firm; it involves a short-term note. The commercial paper that the county has purchased is six-months or less.

A question was on asked on the effect, if any, will the \$13M bond debt service savings have on our sewer rates? Tim responded that it will amount to 40-45 cents savings on the sewer rates.

A question was raised the \$237M refinancing, was the length of the bond the same or did you extend the life? Tim replied the length of the bond was the same. It's with the initial issuance; it's not extended at all.

In response to a question, Tim explained, our finance committee has been working on 2009 rate proposal; at next month's meeting we are giving a presentation on financing, and how we will be addressing the \$5 rate increase.

Each impaired investment is going through an enforcement event. The enforcement event is designed to basically provide senior creditors a soft landing and shut down the operations of that program before the original program administrator potentially sells off all of the assets and leaves the creditors with very little. They are designed to shut down early and to appoint either a trustee or a receiver who would be in charge of those underlying assets to figure out the best way to maximize value for senior creditors. Each one of these investments is part of an enforcement event; they are going through a restructuring process. The county's goal on restructuring is to avoid a situation where we would have to sell these assets quickly in a fire-sale/liquidation sale. Because the county's pool is over \$4B, the county doesn't have a liquidity problem like a small investor might, whereby potentially they would need some immediate cash. Overall, this is a serious situation for the county's pool; but it is limited and it is manageable given that impaired investments are 5% of the overall

Continued
from Pg. 4

pool. We can afford to choose an option that will allow us, through a restructuring proposal, to recover the value of our investments over time. That is why we are going through and looking at the various restructuring proposals being prepared at this time. We expect to see some of the detailed terms and conditions on those coming out during the first quarter of this year, with implementation in the first half of this year.

Responding to several questions, Ken answered there is a trustee with the authority to make the final decisions, working with a group of senior creditors of which we are a member. The trustee works with the senior creditors who express their interests, but the final decisions are made by the trustee. Each trustee will present about three options that meet the needs of different creditors. You always have cash-out options. You always have some type of a longer-term restructuring option, and then there's a third option where you can choose to own a vertical slice of the underlying assets. We are trying to look at the legal issues as well as the intrinsic costs and benefits to select the best option which serves the interests of our collective members.

Ken explained that now we have an unrealized loss but if there is a realized loss how is that shared with the pool? As part of our role in administering the pool, the executive finance committee periodically adopts these types of policies, so we added that policy to our current set of policies. If you look at our investment agreements, we operate that pool according to those underlying policies. It's a pro-rated distribution of any financial loss based on your average pool holdings for the holding period for that investment. That holding period is defined as the date of acquisition to the date of impairment. The date of impairment is either because of a downgrade in the credit rating to below investment grade or an enforcement action or an enforcement event was declared, whichever came first. You have to look at those clearly defined holding periods to look at your pro-rated share and we've done those calculations for all of our pool members and we will be distributing them.

A question was asked on how an impaired investment policy can be created to deal with a retroactive event? Ken replied normally when you have an investment that doesn't pay on the date of maturity, you have a default, and you have an automatic realized loss and you distribute that pro-rata that day. In these cases though, because of these long work-out solutions we can't predict when and what is going to happen with the actual recovery until we get the terms of these restructuring options finished. So, we had to have a policy in place that would allow us the flexibility given that when we hit the maturity dates, there was still a high level of uncertainty about what the future recovery will actually be. We felt that we needed to develop a unique policy for this unique situation.

To summarize: In terms of impact on water quality for these four impaired investments. This is what the county is doing on its year-end financial statements. The county has gone out and priced these assets in today's current market. This is a distressed market, and the price we received on average was 60 cents on the dollar. That means the county will have to book on our year-end financial statement an unrealized loss based on 40 cents on the dollar. That equates to about \$6.6M for the collective water quality funds. That \$6.6M will be reflected in the county's annual financial report. A reduction in cash will be seen by that amount of interest earnings and fund balances will show a reserve of \$6.6M for the impaired at the end of 2007. This is an unrealized financial loss. The county is awaiting the outcome of these restructuring proposals to figure out where they end up. It's financially prudent to be more conservative and take these 60-cents-on-the-dollar estimates

Continued and fold them into the county's financial statements. This information is being shared with
from Pg. 5 pool members. A spreadsheet will be sent to each district that specifically highlights their share of the pool and their share of these impaired investments.

Draft Local Agency Survey - Erica Jacobs

Erica briefly explained that the local agency survey was in the process of being updated. Draft survey's will be sent out to members for comments and the final survey will be mailed to the cities Public Works Directors and the districts General Managers. The aggregated results will be shared at a future MWPAAC meeting.

Approval of the MWPAAC Charter - Dave Christensen

The committee voted to approve the charter as amended. The following motions were passed.

Motion: to use the word customer in Section 2

Motion: to remove the word uniform in Section 4

Motion: to use Executive, County Council and RWQC and/or appropriate committee

Motion: to approve charter as amended and to add adoption by motion of County Council

Motion: to approve charter with amendment

The meeting was adjourned.

The remaining items on the agenda were tabled until the next meeting.

- b. Review of Draft MWPAAC By-laws
- 7. Member Input for 2008 Work Plan
- 8. Subcommittee Reports by Subcommittee Chairs